

OFFICE OF AUDITOR OF STATE
STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

NEWS RELEASE

Contact: Mary Mosiman
515/281-5835
or Tami Kusian
515/281-5834

FOR RELEASE May 27, 2016

Auditor of State Mary Mosiman today released a report on a special investigation of the City of Corning Volunteer Fire Department for the period July 1, 2013 through April 30, 2015. The special investigation was requested by City officials as a result of concerns regarding how the Corning Volunteer Fire Association was established and, as a result, the propriety of financial transactions handled by the Association.

Mosiman reported members of the Department created the Association in 2006 to raise funds to help support the operations of the Department. Department officials reported they completed the required documentation in 2006 to establish the Association as a non-profit organization under section 501(c)(3) of the Internal Revenue Code. However, they determined during the fall of 2014 the documents had not been filed with the Internal Revenue Service (IRS). After filing the required documents, the Association was notified it had been approved as a non-profit organization on May 4, 2015.

Mosiman reported all funds collected by the Association prior to May 4, 2015 are considered City funds and, as such, should have been deposited to a City bank account rather than the bank accounts established by the Association and maintained separately from the City. In addition, the funds collected by the Association prior to May 4, 2015 should have only been used for the operations of the Department.

Mosiman also reported the special investigation identified \$14,224.99 of improper and unsupported disbursements from the funds collected by the Association. The \$7,413.27 of improper disbursements identified includes \$3,928.00 paid to a fitness club for Department members, \$1,679.88 to a food vendor and restaurants for Department holiday parties, and \$903.73 to reimburse individuals for purchases for holiday parties.

The \$6,811.72 of unsupported disbursements identified includes \$3,181.78 paid to grocery stores, \$2,173.09 of reimbursements to individuals, and \$719.74 paid for office supplies.

Mosiman reported it was not possible to determine if any additional improper disbursements were made or if all donations and fundraiser proceeds were properly deposited during the period of the investigation because adequate records were not available. Mosiman also reported records were not readily available for the period prior to July 1, 2013. As a result, it was not possible to determine if there were improper disbursements or if all donations and fundraiser proceeds were properly deposited prior to that date.

The report also includes recommendations for the City and the Department to strengthen internal controls, such as improvements to segregation of duties, maintaining supporting documentation for all expenditures, and maintaining adequate financial records, including ledgers, receipt books, and bank reconciliations.

Copies of the report have been filed with the Division of Criminal Investigation, the Adams County Attorney's Office, and the Attorney General's Office. A copy of the report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1521-0007-BE00>.

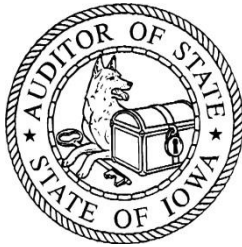
###

**REPORT ON SPECIAL INVESTIGATION
OF THE
CITY OF CORNING VOLUNTEER FIRE DEPARTMENT

FOR THE PERIOD
JULY 1, 2013 THROUGH APRIL 30, 2015**

Table of Contents

Auditor of State's Report		3-4
Investigative Summary:		
Background Information		5-6
Detailed Findings		6-14
Recommended Control Procedures		14-15
Exhibit:	<u>Exhibit</u>	
Improper and Unsupported Disbursements	A	18-23
Staff		24



OFFICE OF AUDITOR OF STATE STATE OF IOWA

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Mary Mosiman, CPA
Auditor of State

Auditor of State's Report

To the Honorable Mayor and
Members of the City Council:

At your request and as a result of concerns regarding how the Corning Volunteer Fire Association was established and the propriety of financial transactions handled by the Association, we conducted a special investigation of the City of Corning Volunteer Fire Department (Department). We have applied certain tests and procedures to selected financial transaction of the Department for the period July 1, 2013 through April 30, 2015. Based on a review of relevant information and discussions with Department staff, we performed the following procedures for the period specified.

- (1) Evaluated how the Department was established to determine if it was a department of the City or a separate legal entity.
- (2) Evaluated how the Corning Volunteer Fire Association (Association) was established to determine if it was properly established as a separate legal entity.
- (3) Evaluated internal controls to determine whether adequate policies and procedures were in place and operating effectively.
- (4) Reviewed activity in the separately maintained checking and savings accounts to identify any unusual activity. We also examined images of redeemed checks and withdrawal documents for payments issued from the bank accounts to determine propriety.
- (5) For selected disbursements, we examined available supporting documentation to determine whether the disbursements were appropriate, properly approved, and properly supported.
- (6) Interviewed Department officials to determine the purpose of certain disbursements and reimbursements made to employees and vendors.
- (7) Examined the charge receipts for purchases made on gas charge cards assigned to the Department to determine the propriety of the charges.

These procedures determined all funds collected by the Association prior to May 4, 2015 were City funds and, as such, should have been deposited to a City bank account rather than the bank accounts established by the Association and maintained separately from City funds. In addition, the funds collected by the Association prior to May 4, 2015 should have only been used for the operations of the Department.


The procedures also identified \$14,224.99 of improper and unsupported disbursements from the funds collected by the Association for the period of our investigation. We were unable to determine if there were additional improper disbursements or if all donations and fundraiser proceeds were properly deposited during the period of our investigation because adequate records were not available. In addition, we were unable to determine if there were improper disbursements or if all donations and fundraiser proceeds were properly deposited prior to July 1, 2013 because records were not readily available prior to that date. Several internal control weaknesses were also identified. Our detailed findings and recommendations are presented in the Investigative Summary and **Exhibit A** of this report.

The procedures described above do not constitute an audit of financial statements conducted in accordance with U. S. generally accepted auditing standards. Had we performed additional procedures, or had we performed an audit of financial statements of the City of Corning Volunteer Fire Department, other matters might have come to our attention which would have been reported to you.

Copies of this report have been filed with the Division of Criminal Investigation, the Adams County Attorney's Office, and the Attorney General's Office.

We would like to acknowledge the assistance and many courtesies extended to us by the officials and personnel of the City of Corning and the Corning Volunteer Fire Department during the course of our investigation.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 26, 2016

City of Corning Volunteer Fire Department

Investigative Summary

Background Information

The City of Corning is located in Adams County and has a population of approximately 1,600. The Corning Volunteer Fire Department (Department) provides fire, hazmat, rescue services, and community education to residents in its service area. The Department serves the City of Corning and the following townships: Carl, Douglas, Grove, Holt, Jasper, Lincoln, Mercer, Nodaway, Prescott, Quincy, and Washington. The Department also provides mutual aid to the Clarinda, Mount Ayr, and Red Oak Fire Departments.

The Department is a department of the City and not a separate legal entity created under Chapter 28E of the *Code of Iowa* or incorporated as a non-profit corporation. Department operations are overseen by the Fire Chief. During the period of our investigation, 2 individuals served as Fire Chief. The current Fire Chief (Chief) is Brian Kannas, who was elected to the position in January 2015 and is paid \$1,200.00 per year under a contract with the City. Prior to Mr. Kannas, Donnie Willett served as the Fire Chief (former Chief) for many years.

The Chief is paid an annual salary, set by the City Council, and is reimbursed for expenses incurred on behalf of the Department. The Chief is responsible for all duties required by law and ordinance, including responding to fire calls, overseeing the fire scene, and ensuring volunteers are properly certified. The Department is staffed by volunteers (members) living in and around Corning. The volunteers are not compensated for their services.

The City is responsible for paying the Department's operating expenses, including the Fire Chief's salary, utilities, fuel, insurance, monthly service fees for communications, training, building maintenance, and purchases and maintenance of equipment. In order to pay for the operations of the Department, the City budgets funds from its General Fund annually. In addition, the City has signed contracts with surrounding townships to provide fire and emergency services to the townships. All funds received under the contracts are deposited with the City and recorded in the City's accounting system.

Members of the Department created the Corning Volunteer Fire Association (Association) in 2006 to raise funds to help support the operations of the Department. Funds raised by the Association were deposited in 1 of 3 bank accounts established by the Association and maintained separately from the City. The accounts included a checking account at Okey Vernon First National Bank and 2 savings accounts at Iowa State Savings Bank. Additionally, the Association purchased a 6-month certificate of deposit issued by Iowa State Savings Bank.

According to Department members, they completed the necessary forms to have the Association be recognized as a non-profit organization under Internal Revenue Service (IRS) rules when the Association was created in 2006. However, Department officials determined during the fall of 2014 the documents had not been filed with the IRS. Department officials subsequently filed the required documents and the Association was approved as a non-profit organization under section 501(c)(3) of the Internal Revenue Code on May 4, 2015.

After being approved as a non-profit organization, the Association established new checking and savings accounts. According to Department members, all of the Association's collections received after May 4, 2015 were deposited to the new accounts once they were established on June 26, 2015 and all Association payments after May 4, 2015 were from the new accounts. While the 3 separately maintained bank accounts established by the Association in 2006 remained open, there were no financial transactions in the accounts from May 1, 2015 until

they were closed in September 2015. All Association bank accounts were administered by the Association's Secretary-Treasurer (Treasurer) and the Chief.

The operations of the Association were overseen by the Association's Board and an Executive Committee during the period of our investigation. The Board was made up of all the volunteer firefighters. The Chief and Treasurer were members of the Executive Committee, along with elected members of the Board. The day-to-day financial operations were handled by the Treasurer, including:

- 1) Receipts – collecting, preparing deposits, posting to the ledger, and making deposits,
- 2) Disbursements – purchasing, preparing checks, signing and distributing checks, posting to the ledger, and maintaining supporting documentation,
- 3) Bank accounts – reconciling monthly bank statements to the accounting records, and
- 4) Reporting – preparing the monthly Treasurer's Report and other reports requested by the Chief or other parties.

Additionally, the Treasurer was to keep an accurate record of all Association, Executive Committee, and Board meetings; keep a list of all members; handle all communications; and serve as recording secretary of the Executive Committee. The Treasurer was a non-voting member of the Board.

Both the Chief and Treasurer were authorized to withdraw funds from the Association's bank accounts. During the period of our investigation, the same individual was the Treasurer and prepared and signed all checks, except for 2 checks prepared and signed by the former Chief in December 2014. The current Chief has not prepared and/or signed any checks.

The bank statements for all of the Association's bank accounts were mailed directly to the Treasurer at her home. All unused and voided checks, bank statements, supporting documentation, reports, minutes, and other documentation were also maintained at the Treasurer's home.

The Treasurer had primary responsibility for all financial transactions from the bank accounts maintained by the Association. The Treasurer was also primarily responsible for accounting for all financial transactions and maintaining appropriate supporting documentation. Supporting documentation included receipts, invoices, or other appropriate documentation from vendors and support for payments to the Department's members. Checks were presented for approval by the Board and signed once or twice each month during scheduled meetings or training events.

As a result of concerns regarding how the Corning Volunteer Fire Association was established and the propriety of financial transactions handled by the Association, City officials contacted the Office of Auditor of State to request a review of the Department's and Association's operations. As a result of the request, we performed the procedures detailed in the Auditor of State's report for the period July 1, 2013 through April 30, 2015.

Detailed Findings

As previously stated, the Department is considered a department of the City. Members of the Department established bank accounts for the Association when it was created in 2006; however, the Association was not approved as a non-profit organization by the IRS until May 4, 2015. As a result, all funds received and deposited into the Association's bank accounts prior to May 4, 2015 should have been considered to be City funds and, as such, should have been necessary and reasonable for the operations of the Department, in the best interest of the

public, and approved by the City Council. In addition, all City policies and procedures related to collection and disbursement of the funds should have been followed.

Disbursements from the Association's bank accounts prior to May 4, 2015 should have been supported by documentation which clearly showed what was purchased and how it benefited the operations of the Department and the City. During this period, it would also have been allowable for Department members to purchase items for fundraising events with funds from the Association's bank accounts if all collections from the events were deposited with the City and the resulting proceeds were used to support Department operations.

The procedures detailed in the Auditor of State's report identified \$14,224.99 of improper and unsupported disbursements from the Association's bank accounts for the period July 1, 2013 through April 30, 2015. **Table 1** summarizes the amounts identified.

Table 1		
Description		Amount
Improper disbursements	Table 2	\$ 7,413.27
Unsupported disbursements	Table 3	6,811.72
Total		14,224.99
Less: Reimbursements from members	Table 2	(936.00)
Net amount		<u>\$ 13,288.99</u>

The \$7,413.27 of improper disbursements identified includes \$3,928.00 paid to a fitness club for Department members, \$1,679.88 to a food vendor and restaurants for Department holiday parties, and \$903.73 to reimburse individuals for purchases for holiday parties. The \$6,811.72 of unsupported disbursements identified includes \$3,181.78 paid to a grocery store, \$2,173.09 of reimbursements to individuals, and \$719.74 paid for office supplies.

Exhibit A lists the individual improper and unsupported disbursements identified from the Association's bank accounts for the period of our investigation. The improper and unsupported disbursements identified are discussed in detail in the following paragraphs.

We reviewed disbursements from all accounts maintained by the Association between July 1, 2013 and April 30, 2015. We were unable to determine if there were any additional improper disbursements or if all donations and proceeds from fundraising events held by the Association were properly deposited during this period because adequate records were not available. In addition, records were not available for the period prior to July 1, 2013. As a result, we are unable to determine if there were any additional improper disbursements or if all donations and proceeds from fundraising events were properly deposited prior to that date.

DISBURSEMENTS

Section 384.20 of the *Code of Iowa* states, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipts, use, and disposition of all city property. Public money may not be expended or encumbered except under and an annual or continuing appropriation." Because the Association was not a separate non-profit organization until May 4, 2015, all donations and fundraising proceeds collected by the Association prior to that date should have been deposited with the City.

In addition, all donations and fundraising proceeds collected by the Association prior to May 4, 2015 should have been recorded in the City's accounting system and used to support Department operations. Each fundraising event also should have had a clearly stated purpose, such as the purchase of specified equipment. Using available records, we were able to identify certain deposits and disbursements associated with individual fundraising events. However,

based on discussions with Department officials, the Department did not specify prior to the fundraisers how the proceeds from the individual events were to be used. Proceeds from all fundraising events were used to make purchases for the Department which were not budgeted for by the City. According to Department officials we spoke with, the proceeds collected were not subsequently restricted or designated for a specific purpose.

According to Department officials we spoke with, the Chief and other members purchased items for the Department then requested reimbursement from the Association. Invoices or other supporting documentation was required to be provided to and approved by the Chief prior to the Treasurer issuing a reimbursement check. Items typically reimbursed to members include items such as bottled water, Gatorade, pop, and laundry detergent. According to the Chief, items such as these were needed by the Department but were not included in the City's budget. As a result, the Association reimbursed members for the purchases after the Chief's review and approval. However, members were also reimbursed for certain costs included in the City's budget, such as training expenses. In those instances, the Association reimbursed the members for the costs then sought reimbursement from the City.

Using the documentation available from the Department, including images of redeemed checks, available supporting documentation, Association minutes, Treasurer's reports, internet searches, and discussions with Department staff, we classified the disbursements as improper, unsupported, or reasonable. Disbursements were classified as improper if they appeared personal in nature and/or were not necessary or reasonable for operations of the Department. Disbursements were classified as unsupported if sufficient documentation was not available and we were unable to determine the propriety of the payment based on information obtained from Department staff, the payee, amount, and frequency of the payments. It is possible some of the unsupported disbursements may be appropriate for the Department's operations.

We also identified disbursements we consider reasonable for Department operations based on discussions with City and Department staff, supporting documentation maintained by the City and the Department, the vendors, and the type of goods and services provided by the vendor. Disbursements must also have been necessary and reasonable for the operations of the Department, allowable, and in the best interest of the public to be considered reasonable. Examples of disbursements we considered reasonable include payments for postage, training, and fire equipment. We also considered fundraising costs reasonable if we were able to document sufficient proceeds were deposited to cover the costs of individual events and the funds were used to benefit the operations of the Department.

The improper and unsupported disbursements identified from the separately maintained checking account are listed in **Exhibit A**. We also reviewed disbursements from the separately maintained savings accounts and determined all withdrawals were deposited to the checking account. The improper and unsupported disbursements identified are discussed in detail in the following paragraphs.

Fundraising Costs

According to Department officials we spoke with, the Association's primary revenue sources each year include 2 annual fundraising events. For a number of years, the Association has held a pancake breakfast in late March or early April and a golf outing at a local country club each August. Because the Association was not authorized as a non-profit organization until May 4, 2015, the proceeds from the fundraisers held prior to that date should have been deposited with the City and used to benefit the operations of the Department. The annual fundraising events held during the period of our investigation are summarized in the following paragraphs.

- Pancake breakfast – Tickets to the breakfast were sold in advance and on the day of the event. Prior to the breakfast, the Association prints and mails flyers to residents

in Corning and the surrounding area. The flyers included information about the breakfast and a form to purchase tickets or remit a donation.

According to Department members we spoke with, costs paid by the Association to hold the event included printing and mailing the flyers, food, and supplies, such as plates, napkins, silverware, and similar items. However, local vendors donated some of the food and supplies for the breakfast.

Using the memo portion on the check images, the dates the checks were issued, the vendor, and information provided by Department officials, we identified the costs paid by the Association to host the pancake breakfast in 2013 and 2014. By comparing the costs identified to the collections deposited in the Association's checking account in March and April of those years, we determined the deposits exceeded the costs identified by approximately \$10,000 in 2013 and \$11,000 in 2014.

Based on our review of the activity in the Association's bank accounts following the pancake breakfasts in 2013 and 2014, we did not identify any significant purchases for equipment or other large disbursements.

- Golf outing - Registration for the annual golf outing began in July, but registration fees were also collected the day of the event. Registration fees paid by participants were deposited to the Association's checking account. The fees collected covered the cost of green fees, cart rental, and raffle prizes. The registration fees also included an amount to be donated to the Association. According to the Chief, participants were told how the funds raised would be used.

Using the memo portion on the check images, the dates the checks were issued, the vendor, and information provided by Department officials, we identified the costs paid by the Association to host the golf outing in 2013 and 2014. By comparing the costs identified to the collections deposited to the Association's checking account in July and August of those years, we determined the deposits exceeded the costs identified by approximately \$4,000 in 2013 and \$6,000 in 2014.

During our review, we determined check number 3975 was issued to Happy Hollow Country Club on September 8, 2014. Supporting documentation for the \$1,416.00 check showed it included \$1,380.00 of green fees and \$36.00 for beer. The purchase of the beer is discussed in more detail in a subsequent section of this report.

Based on our review of the activity in the Association's bank accounts following the golf outings in 2013 and 2014, we did not identify any significant purchases for equipment or other large disbursements.

Fundraising events which help provide additional resources or benefit a City department, such as the Fire Department, Library, or Parks and Recreation Department, are often sponsored by an association or citizens' groups separate from the City. Fundraising events may also be sponsored by the City. However, prior to sponsoring a fundraising event, City officials should ensure the following are addressed.

- The proceeds from the event should be designated for a specified purpose, such as the purchase of certain equipment.
- City officials should be able to demonstrate the expected proceeds from the event will be sufficient to pay the costs of sponsoring the event.
- City officials should ensure potential liability issues are identified and properly mitigated.
- Minutes of the City Council meetings should clearly document the City Council's consideration of these matters. The City Council should also consider if it is appropriate for a separate organization, such as an Association or Friends group, to sponsor the event.

- Minutes of the City Council meetings should also clearly document the City Council's approval of the event.

As previously stated, the proceeds from the 2013 and 2014 pancake breakfasts and golf outings sponsored by the Association were sufficient to pay the costs of the events. In addition, based on information available from the Association's bank statements, the proceeds collected from the events were used to support the Department's operations. The funds remaining in the Association's separately maintained bank accounts were subsequently deposited with the City and restricted for the Department's use. As a result, we determined the disbursements from the Association's bank accounts for the fundraising events were reasonable.

Improper Disbursements

As illustrated by **Exhibit A**, we identified \$7,413.27 of improper disbursements during the period of our investigation. **Table 2** lists the categories and the amount of improper disbursements identified.

Table 2	
Description	Improper
Fitness Clubs	\$ 3,928.00
Grocery Store/Restaurant	1,679.88
Reimbursements to Individuals	903.73
Donations	275.00
Flowers and Gifts	215.06
Other	130.00
Convenience Store	107.05
Promotional Items	88.55
Other	86.00
Total	7,413.27
Less: Reimbursements from members^	(936.00)
Net amount	\$ 6,477.27

^ - The Department paid a total of \$3,928.00 for fitness club memberships and was reimbursed \$936.00 by Department members.

Fitness Clubs – The Association paid \$2,212.00 in 2014 and \$1,716.00 in 2015 for fitness club memberships for Department members. According to the Chief, the Association purchased memberships in order to receive a discount for its members. The members then repay the Department for the membership.

The Association purchased 11 memberships in April 2015 and was reimbursed \$936.00 for 6 of the memberships purchased. The Department could not provide information on the number of memberships purchased in April 2014. Because the membership fees paid by the Association were not properly reimbursed and a clear public benefit was not apparent, the \$3,928.00 total paid for 2014 and 2015, less the amount reimbursed by its members, is considered improper.

Grocery Store/Restaurant – Bottled water, Gatorade, and pop were stocked on the trucks and in the station for the firefighters to use during or after calls and training events. Food for firefighters was also periodically purchased for the same purposes. These purchases serve a public purpose. However, the \$1,679.88 paid to vendors categorized as grocery stores and

restaurants in **Exhibit A** and included in **Table 2** did not include these types of purchases. Examples of items considered improper include:

- Corning Meat Processing (Locker) - We identified 2 disbursements totaling \$852.50 to the Corning Locker, including \$452.50 for food purchased for a holiday party in December 2013 and \$400.00 for gift card(s) purchased in 2014.
- Kay's Café - We identified a \$775.53 check to a local restaurant for a Department holiday party in December 2014.

Because a clear public benefit was not apparent for these purchases or the other purchases from grocery stores and restaurants included in **Table 2**, they are considered improper disbursements.

Reimbursements to Individuals - We identified \$903.73 of reimbursements to individuals related the Department's holiday parties in 2013 and 2014. Because the public benefit of the holiday parties was not documented, the \$903.73 of reimbursements included in **Table 2** are improper disbursements.

Donations - We identified 2 disbursements totaling \$275.00 to charities. There is no clear public purpose for the Department or City to donate funds to charity. As a result, the payments are improper disbursements.

Flowers and Gifts - We identified a \$215.06 disbursement in 2014 to Lone Arrangers, a flower and gift vendor. The memo portion of the check issued to the vendor stated "flowers and wreaths" and the supporting documentation specified it was for the holiday party. Because the public benefit served by purchasing flowers for a holiday party is not clear, it is an improper disbursement.

Convenience Store - We identified a \$107.05 disbursement at West Side Spirits in December 2013. The supporting documentation for the payment had a manual notation which specified it was for holiday party refreshments. The purchase of alcohol is not an allowable use of City funds. As a result, the payment is an improper disbursement.

Other - The \$86.00 of improper disbursements categorized as "Other" in **Table 2** includes \$50.00 for room rental for the Department's 2013 holiday party and \$36.00 for beer for the 2014 golf outing. Because alcohol is not an allowable use of City funds and the public benefit of the holiday party is not apparent, the payments are improper disbursements.

Unsupported Disbursements

As illustrated by **Exhibit A**, we identified 46 unsupported disbursements from July 1, 2013 through April 30, 2015 which total \$6,811.72. **Table 3** lists the categories and the amount of the unsupported disbursements identified.

Table 3

Description	Unsupported
Grocery Store/Restaurant	\$ 3,181.78
Reimbursements to Individuals	2,173.09
Retail Vendor	719.74
Flowers and Gifts	701.11
Promotional Items	36.00
Total	<u>\$ 6,811.72</u>

Grocery Store/Restaurant – As previously stated, bottled water, Gatorade, and pop was stocked on the trucks and in the station for the firefighters to use during or after calls, training events, or monthly meetings. Food was also periodically purchased for firefighters for the same purposes.

Table 3 includes \$3,181.78 paid to Hy-Vee. As illustrated by **Exhibit A**, supporting documentation was not available for some of the payments and others were supported only by monthly statements. The monthly statements only include the date and total amount charged.

Based on discussions with the Chief, purchases from Hy-Vee included bottled water, Gatorade, and pop to be kept on the trucks and at the station. The Chief also stated some of the purchases may have been related to fundraising events. Based on the dates and amounts of certain purchases, we were able to determine 4 of the purchases from Hy-Vee were reasonable for the annual pancake breakfasts. The 4 payments identified are classified as reasonable.

Because of the lack of supporting documentation for the remaining purchases from Hy-Vee included in **Table 3**, we cannot determine if the purchases were for Department operations, personal in nature, or for fundraising purposes. As a result, the \$3,181.78 is included as unsupported disbursements.

Reimbursements to Individuals – We identified 11 reimbursements to individuals totaling \$2,173.09 which were not supported by documentation. Based on discussions with the Chief, the disbursements include:

- \$1,404.36 paid to an individual for reimbursements of uniform related items.
- \$335.80 reimbursed to 2 individuals for the purchase of safety glasses and accountability tags. Accountability tags are numbered and used by firefighters who respond to calls to ensure each responding member is accounted for at the end of the call.
- \$117.80 reimbursed to 2 individuals for the purchase of cleaning supplies.

According to the Chief, he and other members purchased items for the Department and requested reimbursement from the Association. Purchases include accountability tags, cleaning supplies, and prizes for fund raising events. Because supporting documentation was not available for the payments listed in **Table 3**, we are unable to determine if the reimbursements were for items which were for Department operations, personal in nature, or fundraising purposes.

We also identified individuals who were reimbursed for training. The reimbursements included support for the lodging while other expenses were not supported. According to the Chief, when multiple members attend the same training event, all lodging costs were paid with one member's credit card and the member requested reimbursement from the Association. The Association then requested reimbursement from the City for those expenses and deposited the funds into the Association's bank account. We consider these reimbursements reasonable.

Retail Vendor - We identified a payment to Wal-Mart for \$719.74. The check memo line indicated the purchase was "Chief's office equipment." The Fire station was recently built and included new furniture and equipment throughout the building. According to the Chief, the office equipment purchased at Wal-Mart included a desk, chair, and table. However, supporting documentation was not available to document what was purchased. Therefore, we could not determine if the purchase was for Department operations or personal in nature.

Flowers and Gifts – The Department's policy is similar to the City's policy allowing flowers to be purchased for funerals for employees, elected officials, the City Attorney, and their immediate relatives. In addition, the Association purchased flowers for funerals of firefighters

from surrounding Fire Departments. We identified 10 disbursements to Lone Arrangers totaling \$701.11 for flowers and/or gifts.

Billings from Lone Arrangers include only the current balance of the Department's account and do not include the purpose of the purchase. Because of the lack of supporting documentation, we cannot determine if the purchases were for Department operations, in compliance with City and Department policies, personal in nature, or if they served a public purpose. As a result, the \$701.11 is included in **Table 3** as unsupported disbursements.

UNDEPOSITED COLLECTIONS

As previously stated, the Association was not recognized as a non-profit organization until May 4, 2015. In accordance with requirements established by section 384.20 of the *Code of Iowa*, all deposits should have been made to the City's bank account. As a result, donations and collections from fund raising events should have been deposited in the City's bank account and restricted for the purposes for which the funds were donated or raised.

Because the Association did not maintain documentation for the amounts received from donations and fund raising events, we are unable to determine if all collections were deposited to the Association's bank account.

New checking and savings accounts were opened for the Association on June 26, 2015 and all of the Association's financial transactions after May 4, 2015 were processed through the new accounts.

The certificate of deposit held by the Association was redeemed during December 2014 and the proceeds were deposited to an Association's savings account. The Association did not make any deposits to or withdraw funds from the existing checking account at Okey Vernon First National Bank or the 2 savings accounts at Iowa State Savings Bank after April 30, 2015. These accounts were closed in September 2015 and the balances in the 3 accounts, which totaled, \$39,673.00, were deposited in September 2015 to a bank account held by the City. The City and the Department agreed to restrict the funds for Department use, including equipment purchases. As a result, the City recorded the funds within the Department's account in the City's accounting system.

OVERSIGHT AND INTERNAL CONTROL

The Association's Executive Committee and Board have a fiduciary responsibility to exercise authority over its funds, efficiently and effectively achieve its mission, provide oversight of the Association's operations and maintain the public trust. Oversight is typically defined as the "watchful and responsible care" a governing body exercises in its fiduciary capacity. Based on our review, we identified the following concerns related to oversight of the Association:

- The Treasurer did not maintain adequate supporting documentation for all Association disbursements.
- The Association does not have a written policy and procedures manual which includes requirements for supporting documentation for all payments to vendors, credit card charges, and reimbursements to members and other individuals.

As a department of the City, the Department should be held to the same standards and oversight as all other City Departments. The City Administrator is responsible for overseeing the financial operations of the various City Departments. In addition, the City Council has a fiduciary responsibility to exercise authority over its funds, efficiently and effectively achieve its mission, provide oversight of City Department operations and maintain the public trust.

Because the Department maintained separate bank accounts for the Association, appropriate oversight was not provided for the disbursements from those accounts. Specifically:

- The Department was not required to present claims for approval by the City Administrator and the City Council.
- The Department was not required to follow the City's policies and procedures for receipting and disbursing funds.

All funds received by a City Department should have been deposited into the City's bank account. A separate fund should have been maintained in the City's accounting system to track collections and disbursements related to the Department.

Recommended Control Procedures

We reviewed the procedures used by the City and the Department to process receipts and disbursements. An important aspect of internal control is to establish procedures that provide accountability for assets susceptible to loss from error and irregularities. These procedures provide the actions of one individual will act as a check on those of another and provide a level of assurance errors or irregularities will be identified within a reasonable time during the course of normal operations. Based on our findings and observations detailed below, the following recommendations are made to strengthen the Department's and the City's internal controls.

- A) Segregation of Duties – An important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The Treasurer for the Department had control over each of the following areas for the Department:
- (1) Receipts – collecting, preparing deposits, posting to the ledger, and making deposits,
 - (2) Disbursements – purchasing, preparing checks, signing and distributing checks, posting to the ledger, and maintaining supporting documentation,
 - (3) Bank accounts – reconciling monthly bank statements to the accounting records, and
 - (4) Reporting – preparing the monthly Treasurer's Report and other reports requested by the Chief or other parties.

Recommendation – We realize segregation of duties is difficult with a limited number of staff. However, the Department and the City should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel and/or elected officials.

- B) Separately Maintained Accounts – Section 384.20 of the *Code of Iowa* states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose."

The Department maintained separate bank accounts for the Association during the period of our investigation. The Department is part of the City and the separate bank accounts should have been included in the City Clerk's monthly financial reports.

Based on our review of the sources of the deposits made to the Department's accounts, the funds in the separate bank accounts are public funds collected for a City purpose. The transactions and the resulting balances were not reported to the City Council, were not under the control of the City Council, and disbursements from the accounts were not reviewed or approved by the City Council.

The Department closed the separately maintained bank accounts used prior to the date the Association became recognized as a 501(c)(3) non-profit organization. The balances in the accounts were deposited to a bank account held by the City. The City established an account for "Private Source Contributions" within the Department's account in the City's accounting system. The Department opened new bank accounts used for the Association's financial transactions after the date it was recognized as a 501(c)(3) non-profit organization.

Recommendation – All financial transactions of the Department's bank accounts should continue to be included in the City Clerk's monthly financial reports. The Department's activity should be subject to City Council review and the City's budget process. In addition, internal control could be strengthened and operating efficiency could be increased by integrating the receipts and disbursements of these accounts with the City's accounting records in the City Clerk's office.

- C) Supporting Documentation – The Department did not maintain adequate supporting documentation for purchases from vendors or reimbursements to individuals. As a result, we cannot determine if the purchases and reimbursements to individuals were necessary and reasonable for the operations of the Department.

Recommendation – The Department and the City Council should implement policies requiring adequate supporting documentation be provided in order to determine the goods and services purchased, the related quantity, and reimbursements to individuals are necessary and reasonable for the operations of the Department. Disbursements should not be approved unless adequate supporting documentation is available. Disbursements should be approved by the City Council prior to payment.

- D) Financial Accounting Records – Very limited financial records were maintained by the Association during the period of our investigation. The following conditions were identified:

- (1) No ledger was maintained.
- (2) Pre-numbered receipts were not issued for collections for donations and fund raising activities.
- (3) Monthly bank account reconciliations were completed; however, the bank statements were delivered to and reviewed by the individual responsible for disbursing the Association's funds.

Recommendation – Department officials should ensure the Association establishes formal accounting records to account for all receipts and disbursements. Records should include:

- Pre-numbered receipts for all collections.
- Adequate supporting documentation for disbursements, including invoices and receipts.
- Checks should be prepared by the Treasurer and written in sequential order. Checks should be reviewed and signed by appropriate officials. The review should include comparing invoices and supporting documentation to the check.
- Monthly bank to book reconciliations should be prepared by an independent individual and reviewed by someone independent of all financial transactions.

**Report on Special Investigation of the
City of Corning Volunteer Fire Department**

Exhibits

Report on Special Investigation of the
City of Corning Volunteer Fire Department

Improper and Unsupported Disbursements
For the period July 1, 2013 through April 30, 2015

Per Bank Statement and Check Images

Date^	Check Number	Payee	Memo Line	Total
05/22/13	3896	None	Pizza	\$ 51.85
05/29/13	3900	Lone Arrangers	None	37.37
06/05/13	3899	# Hy-Vee	None	372.09
06/30/13	3902	Brian Damewood	Tags	36.00
06/30/13	3903	Lisa Brown	Shirts	166.28
07/16/13	3901	# Hy-Vee	None	182.18
07/19/13	3905	Corning Pool	None	130.00
08/31/13	3911	Lone Arrangers	None	42.73
09/16/13	3910	# Hy-Vee	None	307.33
10/01/13	3917	Lone Arrangers	None	37.38
10/07/13	3918	Lisa Brown	Glasses Name Tags	299.80
11/04/13	3924	MOI	Xmas	50.00
11/06/13	3923	# Hy-Vee	None	197.73
11/15/13	3926	Lisa Brown	Badges	1,238.08
11/21/13	3927	Jo Drake	Xmas	248.62
12/12/13	3929	West Side Spirits (Mini Mart)	None	107.05
12/19/13	3928	# Hy-Vee	None	380.92
01/02/14	3930	Lone Arrangers	None	42.75
01/02/14	3931	Finish Line Trophies	None	18.00
01/06/14	3937	People In Need	Pie	250.00
01/06/14	3935	Lisa Brown	Xmas	388.63
01/06/14	3934	Shane Haffner	Xmas Party	51.48
01/06/14	3936	Hy-Vee	None	26.83
01/10/14	3932	# Hy-Vee	None	318.96
02/03/14	3940	Corning Locker	Xmas	452.50
02/03/14	3941	Chad Johnston	Xmas	65.00
02/12/14	3939	# Hy-Vee	None	223.95
02/28/14	3944	Graphic Ideas	None	88.55

		Description per Support or Information from Department Officials(s)		Category~
Improper	Unsupported			
51.85	-	None		Grocery store / Restaurant
-	37.37	None		Flowers and gifts
-	372.09	None		Grocery store / Restaurant
-	36.00	Reimbursement for accountability tags		Reimbursement to individuals
-	166.28	Reimbursement for uniform items.		Reimbursement to individuals
-	182.18	None		Grocery store / Restaurant
130.00	-	Family event for the Fire Association		Other
-	42.73	None		Flowers and gifts
-	307.33	None		Grocery store / Restaurant
-	37.38	None		Flowers and gifts
-	299.80	Reimbursement for glasses, accountability tags.		Reimbursement to individuals
50.00	-	Holiday party room rental		Other
-	197.73	None		Grocery store / Restaurant
-	1,238.08	None		Reimbursement to individuals
248.62	-	Reimbursement for holiday party/raffle prizes		Reimbursement to individuals
107.05	-	Holiday party refreshments		Convenience store
-	380.92	None		Grocery store / Restaurant
-	42.75	None		Flowers and gifts
-	18.00	Firefighter of the Year Award		Promotional items
250.00	-	Charity donation		Donation
388.63	-	Reimbursement for holiday party expenses		Reimbursement to individuals
51.48	-	Reimbursement for holiday party expenses		Reimbursement to individuals
-	26.83	None		Grocery store / Restaurant
-	318.96	None		Grocery store / Restaurant
452.50	-	50 pounds of potatoes, green beans, desserts, 3 cheeseballs, 1 brat, 1 smokie / pineapple		Grocery store / Restaurant
65.00	-	Holiday party. Reimbursement for pork butts for smoking, buns.		Reimbursement to individuals
-	223.95	None		Grocery store / Restaurant
88.55	-	Hartwell navy jacket with Corning Fire Dept. logo		Promotional items

Report on Special Investigation of the
City of Corning Volunteer Fire Department

Improper and Unsupported Disbursements
For the period July 1, 2013 through April 30, 2015

Per Bank Statement and Check Images

Date^	Check Number	Payee	Memo Line	Total
02/28/14	3943	Lone Arranger	<i>None</i>	134.67
03/07/14	3942	Hy-Vee	<i>None</i>	48.58
03/25/14	3952	# Hy-Vee	<i>None</i>	300.10
04/15/14	3960	Alegent Health Fitness Center	Fitness	2,212.00
06/05/14	3962	# Hy-Vee	<i>None</i>	10.00
06/27/14	3966	Lone Arranger	<i>None</i>	26.79
07/03/14	3965	# Hy-Vee	<i>None</i>	35.49
07/31/14	3969	Lone Arranger	<i>None</i>	48.08
07/31/14	3968	Kenyon Haffner	<i>None</i>	73.73
08/14/14	3970	# Hy-Vee	<i>None</i>	85.54
08/30/14	3973	Shane Haffner	Golf	83.43
09/08/14	3975	@ Happy Hollow Country Club	<i>None</i>	36.00
09/22/14	3977	Lone Arranger	<i>None</i>	48.08
10/09/14	3983	Donnie Willett	Prize money Kids	30.00
11/03/14	3985	# Hy-Vee	<i>None</i>	91.50
11/25/14	3987	Lone Arranger	<i>None</i>	120.24
11/29/14	3989	Donnie Willett	Postage	22.59
11/29/14	3988	Shane Haffner	<i>None</i>	105.38
12/04/14	3990	Corning Locker	Gift Cert	400.00
12/09/14	3986	# Hy-Vee	<i>None</i>	175.48
12/13/14	3991	Lone Arranger	Flowers and wreaths	215.06
12/13/14	3993	Kay's Café	<i>None</i>	775.53

		Description per Support or Information from Department Officials(s)		Category~
Improper	Unsupported			
-	134.67	None		Flowers and gifts
-	48.58	None		Grocery store / Restaurant
-	300.10	Purchase on 02/17/14 - \$37.37. Purchase on 03/03/14 - \$73.91. Purchase on 03/09/14 - \$188.82.		Grocery store / Restaurant
2,212.00	-	Fitness Club memberships		Fitness clubs
-	10.00	None		Grocery store / Restaurant
-	26.79	None		Flowers and gifts
-	35.49	Purchase on 05/23/14 -\$ 26.18. Purchase on 05/29/14 - \$9.31.		Grocery store / Restaurant
-	48.08	None		Flowers and gifts
-	73.73	Reimbursement for prizes for kids water fight competition		Reimbursement to individuals
-	85.54	Purchase on 06/10/14 - \$49.13. Purchase on 06/10/14 - \$4.91. Purchase on 07/06/14 - \$31.50.		Grocery store / Restaurant
-	83.43	None		Reimbursement to individuals
36.00	-	Green fees - \$1,380.00 and Bud Light - \$36.00		Other
-	48.08	None		Flowers and gifts
-	30.00	None		Reimbursement to individuals
-	91.50	Purchase on 09/14/14 - \$75.01. Purchase on 10/9/14 - \$16.49.		Grocery store / Restaurant
-	120.24	None		Flowers and gifts
-	22.59	None		Reimbursement to individuals
-	105.38	Sam's Club receipt including cheese, sour cream, and mayo.		Reimbursement to individuals
400.00	-	Gift certificate to meat locker		Grocery store / Restaurant
-	175.48	Purchase on 10/17/14 - \$150.58. Purchase on 10/17/14 - \$2.29. Purchase on 11/07/14 - \$22.61.		Grocery store / Restaurant
215.06	-	Holiday party		Flowers and gifts
775.53	-	Holiday party. Receipt: 7 chic, 25 ribeye, 14 sirloin, 40 RIP		Grocery store / Restaurant

Report on Special Investigation of the
City of Corning Volunteer Fire Department

Improper and Unsupported Disbursements
For the period July 1, 2013 through April 30, 2015

Per Bank Statement and Check Images

Date^	Check Number	Payee	Memo Line	Total
12/13/14	3992	Danielle Richie	DJ	150.00
01/14/15	3994	# Hy-Vee	<i>None</i>	106.99
01/30/15	3997	Lone Arranger	<i>None</i>	163.02
01/30/15	3995	Finish Line Trophies	<i>None</i>	18.00
02/11/15	3996	# Hy-Vee	<i>None</i>	57.03
02/12/15	3998	Hy-Vee	<i>None</i>	52.25
02/16/15	3999	Hy-Vee	<i>None</i>	56.02
02/26/15	4003	Centerville Fire Dept	Fallen Fighter finan	25.00
03/09/15	4002	# Hy-Vee	<i>None</i>	51.30
03/14/15	4007	Lisa Brown	<i>None</i>	54.25
03/16/15	4010	Brian Kannas	<i>None</i>	63.55
03/26/15	4017	CHI Wellness	Fitness 11 members	1,716.00
04/02/15	4015	# Hy-Vee	<i>None</i>	4.28
04/20/15	4018	# Wal-Mart	<i>None</i>	719.74
04/27/15	4019	Hy-Vee	<i>None</i>	97.23
Total				<u>\$ 14,224.99</u>

- Electronic payment.

~ - Category is based on information from Department official(s) and the vendor's type of business.

^ - Date shown is the check date or the date the electronic payment was recorded in the Association's bank statement.

@ - Check number 3975 totaled \$1,416.00 and included \$1,380.00 for green fees for the golf outing.

Note: Auditor's notations in italics.

		Description per Support or Information from Department Officials(s)		Category~
Improper	Unsupported			
150.00	-	Holiday party expense		Reimbursement to individuals
-	106.99	Purchases on 11/13/14 - \$125.29. Purchase on 11/14/14 - \$17.89. Credit on 11/26/14 - \$36.19.		Grocery store/Restaurant
-	163.02	None		Flowers and gifts
-	18.00	Plaques - 2014 Firefighter of the year 8x10 engraved brass.		Promotional items
-	57.03	None		Grocery store/Restaurant
-	52.25	None		Grocery store/Restaurant
-	56.02	None		Grocery store/Restaurant
25.00	-	Donation to Fallen Firefighter fund		Donation
-	51.30	None		Grocery store/Restaurant
-	54.25	Reimbursement for cleaning supplies		Reimbursement to individuals
-	63.55	Reimbursement for cleaning supplies		Reimbursement to individuals
1,716.00	-	Fitness Club memberships		Fitness clubs
-	4.28	None		Grocery store/Restaurant
-	719.74	Office equipment for new fire station		Retail vendor
-	97.23	None		Grocery store/Restaurant
<u>7,413.27</u>	<u>6,811.72</u>			

Report on Special Investigation of the
City of Corning Volunteer Fire Department

Staff

This special investigation was performed by:

Annette K. Campbell, CPA, Director
James S. Cunningham, CPA, Manager
Mark D. Newhall, Assistant Auditor
Anthony Mallie, Assistant Auditor

A handwritten signature in black ink that reads "Tamera S. Kusian". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

Tamera S. Kusian, CPA
Deputy Auditor of State